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E.O. 11652: N/A
TAGS: CAP, EEC
SUBJECT: IMPLICATION FOR THE UK AND INITIAL REACTION TO THE NOVEMBER 18-20 EC COUNCIL OF AGRICULTURE MINISTERS MEETING

REF: ECBRUSSELS 9083

BEGIN SUMMARY: THE INITIAL UK REACTION TO THE PACKAGE WHICH EMERGED FROM THE NOVEMBER 18-20 EC COUNCIL OF AGRICULTURE MINISTERS' MEETING HAS BEEN MAINLY TO WELCOME THE DECISIONS REACHED ON BEEF BUT TO LOOK WITH SUSPICION AT THE OUTCOME ON SUGAR. IT IS BEING WIDELY COMMENTED UPON THAT UK AGRICULTURAL MINISTER PEART HAS HAD TO SWALLOW SOME OF HIS WORDS EARLIER THIS YEAR ON BEEF INTERVENTION IN ORDER TO GAIN AGREEMENT FOR SPECIAL TREATMENT FOR THE UK BEEF INDUSTRY. ON SUGAR THERE IS SUSPICION THAT THE POSITION OF THE UK CANE REFINING INDUSTRY IS STILL INSUFFICIENTLY SAFEGUARDED. THEREFORE, HMG AVAILED ITSELF OF THE EC'S "AD REFERENDUM" PROVISION ON THE DEAL LEAVING CONCURRENCE TO CABINET DECISION UNTIL AFTER HEARING PEART'S REPORT ON THE BRUSSELS MEETING. CABINET APPROVAL WAS GIVEN ON NOVEMBER 21. MEANWHILE THERE IS A GROWING ACKNOWLEDGEMENT HERE THAT THE REST OF THE COMMUNITY'S PATIENCE IS WEARING STEADILY THINNER AS THE UK CONTINUES TO ASK FOR SPECIAL TREATMENT ON CAP MATTERS. POLITICALLY BOTH QUOTE PROS UNQUOTE AND QUOTE ANTIS UNQUOTE RECOGNIZE THAT UK ACCEPTANCE OF THE NOV.20 PACKAGE BINDS THE UK TO THE OTHER QUOTE EIGHT UNQUOTE STILL MORE CLOSELY AND COULD PUT THE UK UNDER AN OBLIGATION TO MAKE FUTURE CONCESIONS ON OTHER POINTS AT ISSUE SINCE, ON THIS OCCASION, THE UK WAS ABLE TO OFFER VIRTUALLY NOTHING IN RETURN FOR THE POINTS CONCEDEDTO IT. END SUMMARY.

1. THE PRINCIPAL REASONS FOR PEART'S QUEST IN BRUSSELS WERE: (A) TO STRENGTHEN THE SEVERELY DEPRESSED MARKET FOR BEEF IN THE UK WHICH RESULTED FROM AN ALARMING RISE IN CATTLE SLAUGHTER TO AVOID FEEDING ANIMALS THROUGH THE WINTER AND (B) TO GAIN COMMUNITY AGREEMENT ON A PRICE
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HIGH ENOUGH TO ATTRACT RAW CANE SUGAR FROM COMMONWEALTH'S LDC'S IN ORDER TO SAFEGUARD SUPPLIES TO UK CONSUMERS AND PROTECT THE JOBS AND INVESTMENT IN THE UK CANE SUGAR REFINING INDUSTRY. THE BEEF PROBLEM IS ARGUABLY THE MORE IMPORTANT FOR THE FUTURE OF UK AGRICULTURE. BUT THE SUGAR QUESTION IS MUCH MORE SIGNIFICANT POLITICALLY IN THAT IT IS DIRECTLY LINKED WITH THE STILL STRONQ EMOTIONALISM CONNECTED WITH THE OLD COMMONWEALTH

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TIES IDEAL (AN EMOTIONALISM STILL PLAYED UPON WITH SUCCESS BY THE ANTI-EC FACTION), IT DIRECTLY AFFECTS THE JOBS OF SOME 9,000 WORKERS IN THE UK CANE REFINERIES AND IT IS SEEN AS THE ONLY VIABLE SOLUTION TO THE SHORTAGE OF SUGAR WHICH IS THE MAJOR TALKING POINT OF EVERY BRITISH HOUSEWIFE.

2. PEART'S QUEST ON BEEF WAS TO ACHIEVE AN EFFECTIVE FLOOR TO THE MARKET BASED ON AN 18 POUND PER LIVE CWT (112 LBS) GUARANTEE TO THE PRODUCER. THE EXISTING SLAUGHTER PREMIUMS PAYMENTS SCALE INTRODUCED IN AUGUST (SEE LONDON 9094) AND SUPPLEMENTED BY 12.5 PERCENT FOLLOWING THE EC COUNCIL OF AGRICULTURAL MINISTERS' MEETING ON SEPTEMBER 17.20 (SEE LONDON 12405) RESULTED IN A PER CWT SUPPLEMENT AT PRESENT OF ABOUT 2 POUNDS. INDEED IT WAS CLAIMED BY THE NFU THAT THESE PAYMENTS HAD THE EFFECT WHEN THE MARKET WAS FALLING OF REDUCING FATSTOCK MARKET PRICES BY THE AMOUNT OF THE PREMIUM. BY

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LATE OCTOBER AVERAGE MARKET PRICES WERE AS LOW AS 12-13
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POUNDS PER CWT. FURTHERMORE, THE REFUSAL OF HMG TO OPERATE AN INTERVENTION SYSTEM FOR BEEF BECAUSE TO QUOTE PEART, QUOTE BEEF IS FOR EATING, NOT STOCKPILING, UNQUOTE, LEFT THE UK FAT CATTLE PRODUCER WITHOUT ANY SUPPORT WHATSOEVER. UNTIL THE SEVERE AUTUMN SLUMP IN BEEF CATTLE PRICES, HMG WAS ON SAFE POLITICAL GROUND IN REFUSING TO OPERATE INTERVENTION WITH MEMORIES OF THE ABSURDITIES OF THE EC BUTTER MOUNTAIN FRESH IN THE MINDS OF THE UK'S OVERWHELMING URBAN ELECTORATE AND FEARS OF A SIMILAR SITUATION DEVELOPING IN BEEF. BV OCTOBER, HOWEVER, IT BECAME CLEAR THAT, FRIGHTENED BY FALLING PRICES, THE PROSPECT OF VERY SCARCE AND EXPENSIVE FEED AND OF OTHER COSTS CONTINUING TO RISE, FARMERS WERE MARKETING CATTLE FOR SLAUGHTER AT UNPRECEDENTED, NEAR-STAMPEDE PROPORTIONS. HMG RECOQNISED A SITUATION HAD DEVELOPED WHICH COULD LEAD TO A BEEF SHORTAGE IN 1976 BECAUSE FATSTOCK GOING FOR SLAUGHTER INCLUDED INCREASING NUMBERS OF CALVES AND BREEDING COWS AND HEIFERS.

3. THE NOVEMBER 20 BRUSSELS PACKAGE AT LEAST SHOULD ESTABLISH THE 18 POUND MINIMUM FLOOR LONG PLEADED FOR BY THE NATIONAL FARMERS' UNION RISING TO 22 POUNDS BY JAN. 31 WHEN THE NEW TEMPORARY SUPPORT MEASURES TERMINATE. IN RETURN PEART HAS BEEN OBLIGED TO EAT HIS WORDS ABOUT IN-TERVENTION, AND AGREE TO THE IMPLEMENTION OF A UK INTER-VENTION PRICE OF 14.18 POUNDS PER CWT WEIGHT AT THE BE-GINNING OF NOVEMBER RISING TO 18.54 POUNDS AT THE END OF JANUARY. THE TOTAL PREMIA PAYMENTS PROVIDED FOR IN THE

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OLD AND NEW DEALS FOR THE UK MUST NOT EXCEED THE DIFFERENCE BETWEEN THE GUARANTEE PRICE AND THE INTERVENTION BUYING PRICE. THE EXTRA PREMIA WILL BE PAID OUT OF UK FUNDS. IF THROUGH SOME PARTICULARLY CATASTROPHIC SET OF CIRCUMSTANCES, THE UK MARKET PRICE WERE TO FALL AGAIN WELL BELOW THE INTERVENTION PRICE, THE HARD WON QUOTE GUARANTEE UNQUOTE SCALE OF 18-22 POUNDS MIGHT STILL NOT BE ACHIEVED. NO PREMIA WILL BE PAYABLE ON BEEF TAKEN INTO INTERVENTION AND ANY SUCH BEEF WILL BE KEPT IN FROZEN CARCASS FORM OR CANNED AS CUTS. PEART TOLD PARLIAMENT QUOTE THERE IS NO QUESTION OF A BEEF MOUNTAIN BEING ACCUMULATED IN THE UK UNQUOTE. THE COMBINATION OF MEASURES QUOTE SHOULD HAVE NO SIGNIFICANT
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EFFECT ON RETAIL PRICES UNQUOTE.

4. FORTUNATELY, PRESENT MARKET CONDITIONS MAKE INTERVENTION ON EVEN A MODEST SCALE HIGHLY UNLIKELY. ALREADY, OVER THE PAST WEEK MARKET PRICES HAVE IMPROVED DRASTICALLY IN THE FACE OF THE NORMAL SEASONAL RISE IN DEMAND FOR BEEF AND IN ANTICIPATION OF THE "SOCIAL" BEEF SCHEME DUE TO START DECEMBER 1. THE AVERAGE UK FAT CATTLE PRICE ON NOVEMBER 21 WAS 16.27 POUNDS PER CWT, A RISE OF 1.65 POUNDS ABOVE A WEEK EARLIER SO THAT EVEN WITH THE OLD 2 POUND PREMIUM THE RETURN IS ALREADY 18.27 POUNDS OR 27 PENCE ABOVE THE 18 POUNDS FLOOR. IT CAN BE ARGUED, HOWEVER, THAT THIS IMPROVEMENT IN THE MARKET IN PART DERIVES FROM A FALL IN MARKETINGS BECAUSE FARMERS HAVE HELD BACK ANIMALS IN ANTICIPATION OF THE BRUSSELS DEAL.

5. A MAJOR POINT NOW TROUBLING SOME OPINION HERE IS THAT HMG HAS NOW AFTER ALL AGREED TO OPERATE A BEEF INTERVENTION SCHEME. THERE IS ALREADY COMMENT HERE THAT THIS WILL WEAKEN HMG'S AIM, WHEN THE 1975-76 EC BEEF

POLICY IS WORKED OUT, OF ELIMINATING BEEF INTERVENTION THROUGHOUT THE COMMUNITY AND REPLACING IT WITH A COMMUNITY-WIDE VARIABLE PREMIUM SYSTEM. BUT PEART REPORTING TO THE HOUSE OF COMMONS ON NOV. 21 SAID HMG REGARDS THE UK'S ADOPTION OF INTERVENTION AS ONLY TEMPORARY. HE WAS CONFIDENT THAT WHEN THE 1975 BEEF REGIME IS DISCUSSED, THE UK'S FOOT IN THE DOOR ON THE PREMIUM SYSTEM WILL NOT EASILY BE DISLODGED.

6. NFU REACTION TO THE BEEF DEAL HAS BEEN TO DESCRIBE IT AS A QUOTE MAJOR BREAKTHROUGH UNQUOTE. PRO-EC CONSERVATIVE MP'S HAVE BEEN QUICK TO POINT OUT THAT IF MR. PEART HAD NOT FOR SO LONG SET HIS FACE AGAINST INTERVEN-

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TION, THE SITUATION WHICH TOOK HIM TO BRUSSELS THIS WEEK
WOULD NEVER HAVE DEVELOPED. CABINET APPROVAL IS TEMPER-
ED BY EMBARRASSMENT OVER THE UK'S HAVING BEEN OBLIGED
AFTER ALL TO ACCEPT THE BEEF INTERVENTION PRINCIPLE. ONE
LABOUR MP ON NOV. 21 SAID PEART SHOULD HAVE VETOED THE
INSISTENCE ON UK IMPLEMENTATION OF INTERVENTION AND MR.
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BUCHAN WHO RECENTLY RESIGNED AS PEART'S NUMBER TWO AT
MAFF (LONDON 13591) ASKED IF IT WOULD NOT HAVE BEEN

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POSSIBLE TO HAVE ACHIEVED A PREMIUM-BASED SUPPORT SYSTEM
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IN 1975 WITHOUT PAYING THE PRICE OF ACCEPTING INTERVENTION NOW QUOTE WHICH MANY OF US FEEL IS PREEMPTING THE DISCUSSIONS NEXT YEAR ON THE WHOLE FUTURE OF THE EC UNQUOTE.

7. ON SUGAR THE PICTURE IS AT THE SAME TIME SIMPLER IN THE BROADER SENSE BUT MUCH MORE SUBTLY DIFFICULT IN DETAIL AND PRACTICABILITY. HAVING ALREADY AT LAST ACHIEVED COMMUNITY AGREEMENT ON ACCESS FOR THE 1.4 MILLION TONS OF RAW CANE SUGAR FROM COMMONWEALTH LDC'S IN PLACE OF THE MORE QUOTE AURA A COEUR UNQUOTE WHICH WAS ALL THE CONSERVATIVE GOVERNMENT WAS ABLE TO GAIN AT THE TIME OF THE LANCASTER HOUSE CONFERENCE OF 1972, MINISTER PEART'S TASK IN BRUSSELS THIS WEEK WAS TO GAIN COMMUNITY AGREEMENT ON TWO MAJOR POINTS: (A) A PRICE HIGH ENOUGH TO ATTRACT THE SUGAR AT A TIME WHEN THE WORLD MARKET PRICE IS CURRENTLY OVER 600 POUNDS PER TON AND THE COMMUNITY PRICE IS ONLY 126 POUNDS AND (B) A REQUEST FOR A QUOTA SYSTEM TO ENSURE THAT THIS CANE SUGAR WOULD COME TO THE UK, USING AS A BASIS THE UNDERSTANDING BROUGHT BACK BY FOREIGN SECRETARY CALLAGHAN FROM THE FOREIGN MINISTERS'S COUNCIL MEETING LAST WEEK THAT TRADITIONAL PATTERNS OF SUGAR TRADING SHOULD NOT BE DISTURBED.

8. PEART HAD RECOMMENDED A COMMUNITY OFFER TO THE LDC'S OF 140 POUNDS PER TON FOB PLUS A SUPPLEMENT FOR 1975 TO TAKE ACCOUNT OF PRESENT WORLD MARKET CONDITIONS.

9. THE OUTCOME IN BRUSSELS ON NOVEMBER 20 FALLS RATHER SHORT OF WHAT PEART WANTED ON PRICES. THE REMAINDER OF THE COMMUNITY IS UNWILLING TO OFFER FOREIGN SUPPLIERS A

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HIGHER PRICE THAN THE INTERNAL CAP PRICE SO AS TO MAIN-
TAIN THE PRINCIPLE OF COMMUNITY PREFERENCE. ONLY IN THE
EXCEPTIONAL CIRCUMSTANCES PROBABLE IN 1975 WILL THE COM-
MUNITY AGREE TO ANY EXTRA PAYMENT ABOVE THE CAP PRICE BY
AN AMOUNT TO BE NEGOTIATED BETWEEN BUYERS AND SELLERS.
BUT AN IMPORTANT CONCESSION IS THAT A MEMBER STATE MAY
ITSELF PAY GUARANTEES TO BUYERS. WHETHER THE LDC'S WILL
BE INDUCED INTO CONCLUDING CONTRACTS ON THIS BASIS
REMAINS TO BE SEEN. PEART DID WIN A CONCESSION THAT ANY
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ARRANGEMENTS MADE WILL BE FOR A INDEFINITE PERIOD WITH
A SEVEN YEAR REVIEW PROVISION RATHER THAN THE FIVE-YEAR
SPAN ORIGINALLY SUGGESTED. ONE CAN ONLY SPECULATE AT
THIS STAGE WHETHER MEMORIES OF THE VOLATILITY OF WORLD
SUGAR PRICES AND THEIR LONG PERIOD OF DEPRESSION IN THE
SIXTIES MAY TEMPT THE LDC'S INTO OPTING FOR STABILITY.
TO HELP THEM MAKE UP THEIR MINDS IS THE CERTAINTY THAT
IF THERE IS NO DEAL, THE DEFINITE PROSPECT OF 1.4 MIL-
LION TONS OF UNCOMMITTED SUGAR AVAILABLE ON THE WORLD
MARKET WILL PULL DOWN THE WORLD MARKET PRICE BELOW ITS
PRESENT LEVEL. HOWEVER, A COMPLICATING AND POSSIBLY
OMINOUS FACTOR FOR THE UK IS THE US AGREEMENT TO TAKE A
7 MILLION SHORT TON GLOBAL QUOTA ON A FIRST-COME FIRST-
SERVED BASIS IN 1975 WITH THE IMPORTANT PROVISION THAT
AMOUNTS SHIPPED IN 1975 COULD BE TAKEN INTO CONSIDERA-
TION IF AND WHEN COUNTRY QUOTAS ARE RE-INTRODUCED IN
SUBSEQUENT SUGAR LEGISLATION.

10. THE DOUBT ON THE WILLINGNESS OF THE LDC'S TO AGREE
IS COMPOUNDED FOR THE UK REFINING INDUSTRY BY MR. PEART'S
FAILURE TO OBTAIN A DEFINITE QUOTA COMMITMENT THAT THE
SUGAR, EVEN IF BOUGHT, WILL COME TO THE UK. THE COMMUN-
ITY HAS POINTED OUT THAT QUOTAS CONTRAVINE ITS COMPE-
TITION RULES. AGAIN FOR THE SAME REASON, HMG WILL NOT
BE ALLOWED TO OFFER A STRAIGHT SUBSIDY TO UK CANE REFI-
NERS BUT IT COULD OFFER LOANS TO ENABLE TATE AND LYLE
AND MANBRE AND GARTON TO MEET COMPETITION FOR THE CANE
SUGAR FROM REFINERS ELSEWHERE IN THE EC.

11. IT IS THE DOUBTS RAISED BY THESE COMMUNITY PROVISOS
WHICH NECESSITATED THE QUOTE AD REFERENDUM UNQUOTE POSI-
TION TAKEN BY THE UK. NEVERTHELESS, INFORMED OPINION
HERE BELIEVES THAT, BECAUSE OF TRADITIONAL TRADING LINKS
AND THE PROXIMITY TO SEABORNE TRADE OF TATE & LYLE'S
REFINERIES IN LONDON, LIVERPOOL AND GLASGOW, IT WOULD
BE NATURAL FOR THE UK TO REFINE THE SUGAR.

12. IF THE SUGAR IS NOT REFINED IN THE UK BUT ELSEWHERE
IN THE EC, THE NET SUGAR SUPPLY SITUATION IN THE COMMUN-

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ITY NEED NOT BE AFFECTED AND, PROVIDING SUFFICIENT QUAN-
TITIES ARE FORTHCOMING, UK HOUSEWIVES WILL ONCE AGAIN BE
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ABLE TO BUY SUGAR AT WILL. THE HEART OF THE MATTER FOR

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REFINING INDUSTRY.

13. WHAT IS CERTAIN, DEAL OR NO DEAL, IS THAT THE RETAIL PRICE OF SUGAR IN BRITAIN WILL CONTINUE TO RISE.

14. MEANWHILE THE COMMUNITY HAS TAKEN ANOTHER DECISION ON SUGAR OF GREAT SIGNIFICANCE TO THE UK. THE NOVEMBER 18-20 BRUSSELS MEETING ENDORSED A PROPOSAL PLACING AN EXPORT LEVY ON SUGAR-BASED PRODUCTS EXPORTED OUTSIDE THE COMMUNITY. ANY ITEM WITH MORE THAN 35 PERCENT OF RAW MATERIAL COSTS ACCOUNTED FOR BY SUGAR WOULD PAY AN EX-PORT TAX OF 100 POUNDS PER TON OF SUGAR EXPORTED TO THIRD COUNTRIES. THE IMPORTANCE OF THIS TO THE UK IS IMMENSE. IN 1973 THE UK'S EXPORTS OF PRESERVES, PASTRIES, CAKES, OTHER FINE BAKED GOODS AND SUGAR AND CHOCOLATE CONFECTIONERY OUTSIDE THE EC WAS WORTH 53 MIL-LION POUNDS ALTHOUGH PROBABLY NOT ALL OF THIS CONTAINED ENOUGH SUGAR TO QUALIFY FOR THE LEVY.

COMMENT: THE OUTCOME OF THE NOVEMBER 18-20 MEETINGS SEEMS TO BE HARDENING OPINION HERE THAT, DESPITE ITS REPEATEDLY ASKING FOR (AND GETTING) SPECIAL TREATMENT ON CAP MATTERS, THE UK IS GRADUALLY BECOMING MORE AND MORE ENMESHED IN THE COMMUNITY THROUGH BECOMING INCREASINGLY OBLIGATED TO THE OTHER EIGHT BY THEIR CONCESSIONS. FOREIGN SECRETARY CALLAGHAN WENT SO FAR AS TO SAY ON TELEVISION ON NOVEMBER 21 QUOTE WE ARE NOW SO ENMESHED IN THE MARKET THAT COMING OUT WILL BE QUITE A TRAUMATIC EXPERIENCE UNQUOTE. ANTI-EC LABOUR MP'S ARE BECOMING SERIOUSLY WORRIED AT WHAT THEY SEE AS A FURTHER SHIFT TO A PRO-EC STANCE IN THE CABINET AS EVIDENCED BY ITS ACCEPTANCE OF THIS LATEST FARM DEAL. THE VIEWS OF THE ANTIS ARE EXPECTED TO BE STRONGLY VOICED AT NEXT WEEK'S LABOUR PARTY CONFERENCE AND A DEMAND HAS ALREADY BEEN VOICED THAT ALL MINISTERS ENGAGED IN RENEGOTIATION SHOULD REPORT WEEKLY TO THE PARLIAMENTARY LABOUR PARTY.

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